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United Stores Corporation

Report to Stockholders
Year Ending December 31, 1940

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RANDOLPH CATLIN, *First Vice-President*

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EUGENE W. STETSON

GENERAL COUNSEL

SULLIVAN & CROMWELL.....NEW YORK, N. Y.

AUDITORS

PRICE, WATERHOUSE & Co.....NEW YORK, N. Y.

UNITED STORES CORPORATION
15 EXCHANGE PLACE
JERSEY CITY, N. J.

MARCH 17, 1941.

To the Stockholders of

UNITED STORES CORPORATION:

There are presented herewith the following financial statements of United Stores Corporation for the year ending December 31, 1940, with report of Messrs. Price, Waterhouse & Co. thereon:

Balance Sheet
Statement of Income and Expense
Statement of Surplus

For the information of the stockholders there are enclosed herewith copies of the Annual Report of McLellan Stores Company for the year ending January 31, 1941, and the Annual Report of McCrory Stores Corporation for the year ending December 31, 1940.

By order of the Board of Directors.

ROBERT W. JAMESON,
President.

UNITED STORE
BALANCE SHEET

ASSETS

CURRENT ASSETS:

Cash in bank and on hand.....	\$ 55,409.25
Account receivable, at nominal amount.....	1.00
	\$ 55,410.25

OFFICE FURNITURE AND FIXTURES, at nominal amount.....

1.00

INVESTMENTS:

At cost:

McCrory Stores Corporation (Note 1)—	
14,100 shares convertible 6% cumulative preferred stock, par \$100 (28.2% of total outstanding).....	\$ 508,164.00
396,138 shares common stock, par \$1 (40% of total out- standing)	5,040,418.31

McLellan Stores Company (Note 1)—	
8,322 shares 6% cumulative convertible preferred stock, par \$100 (27.74% of total outstanding)	4,521,099.39
380,098½ shares common stock, par \$1 (51.84% of total out- standing)	

At valuation authorized by Board of Directors in 1933 plus cost of subsequent purchases, less liquidation dividend of \$10 per share received during 1940:	
	415,660.25

Tobacco Products Corporation of Delaware (Note 2)—	
20,844 shares of capital stock, par \$10 (63.23% of total outstanding)	415,660.25

10,485,341.95

NOTE 1—Quoted market prices at December 31, 1940:—

McCrory Stores Corporation:	
6% preferred stock	111½
Common stock	14¾

McLellan Stores Company:	
6% preferred stock	108½
Common stock	65/8

The preferred stock of McCrory Stores Corporation was sold on January 3,
1941 for \$1,568,766.

NOTE 2—Tobacco Products Corporation of Delaware (dissolved on October 26, 1939)
is being liquidated by a receiver appointed by the Delaware Court of
Chancery. The receiver reported that the assets of the Corporation in his
hands, as of December 31, 1940, consisted of cash in the amount of \$14,820 and
all of the stock of Tobacco Products Corporation of New Jersey.

The value of the stock of Tobacco Products Corporation of New Jersey
is contingent upon the amount of taxes which may be payable by that cor-
poration upon \$36,286,128.85 received from American Tobacco Company in
commutation of a lease in January, 1935. On June 7, 1937 the Treasury
Department assessed \$4,967,890.40 as tax, penalty and interest against
Tobacco Products Corporation of New Jersey and demanded and received,
on account of the tax so claimed, that company's cash balance of \$725,638.27
which was its only asset. The Treasury Department has subsequently taken
the position that certain inactive subsidiaries of Tobacco Products Corpora-
tion of New Jersey also realized a taxable gain upon the commutation of such
lease, and that Tobacco Products Corporation of New Jersey is liable both for
an alleged deficiency in its own income tax (asserted to be \$3,776,723.70 less
the \$725,638.27 already received by the Treasury Department) and also, as
transferee, for alleged deficiencies in income tax of such inactive subsidiaries
(asserted to be \$4,541,315.46), together with interest. The amount of and
persons liable for payment of any such taxes have not been finally determined.
See also Note 4.

\$10,540,753.20

S CORPORATION

DECEMBER 31, 1940

LIABILITIES	
CURRENT LIABILITIES:	
Bank loan, payable on demand.....	\$ 100,000.00
(Secured by 1,500 shares McLellan Stores Company preferred stock)	
Accounts payable	16,503.73
Unclaimed dividends	2,103.10
Reserve for taxes	<u>32,900.00</u>
	<u>\$ 151,506.83</u>

CONTINGENT LIABILITIES (Notes 4 and 5)

CAPITAL STOCK AND CAPITAL SURPLUS:

Capital stock:

\$6 cumulative convertible preferred stock, without par value, preferred over Class A and common as to \$115 per share plus accrued dividends on dissolution—(Note 3)—	
Authorized—101,800 shares	
Outstanding—95,695 shares stated at \$25 per share.....	\$2,392,375.00
Note—Preferred dividends are in arrears \$13.00 per share at December 31, 1940, or a total of \$1,244,035.	
Class A stock of \$5 par value, convertible, preferred over common as to \$4.20 per annum (cumulative to the extent earned in any fiscal year) and as to \$75 per share on dissolution (Note 3)—	
Authorized—916,000 shares	
Outstanding—915,979 shares	4,579,895.00

Common stock of 50¢ par value—

Authorized—1,522,200 shares including 1,011,674 shares reserved for conversion of preferred and Class A stocks	
Outstanding, less 328½ shares in treasury—504,067½ shares	252,033.75
Capital surplus, per statement attached	<u>2,916,270.62</u>

EARNED SURPLUS SINCE JANUARY 1, 1937, per statement attached

NOTE 3—In the opinion of counsel neither the provisions of the Corporation's certificate of incorporation nor the statutes of Delaware create restrictions upon surplus growing out of the fact that upon involuntary liquidation the preferences of the preferred and Class A stocks exceed their respective stated or par values.

NOTE 4—On account of the alleged deficiencies in income tax of Tobacco Products Corporation of New Jersey and certain of its inactive subsidiaries, arising out of the commutation of the lease referred to in Note 2, the Treasury Department has asserted liability against United Stores Corporation for \$3,051,085.43, plus interest, as transferee of the assets of Tobacco Products Corporation of New Jersey, and \$4,541,315.46, plus interest, as indirect transferee of the assets of such inactive subsidiaries. The amount, if any, of any such alleged deficiencies has not been finally determined and the matter of liability of United Stores Corporation on account thereof is now pending before the Board of Tax Appeals. While, in the opinion of counsel, United Stores Corporation is not liable for such alleged deficiencies, negotiations are being carried on in an attempt to reach a settlement of the liability asserted against it. No provision has been made in the above balance sheet for any amount which may be paid in any settlement or any liability which may be established.

NOTE 5—United Stores Corporation is a defendant in certain actions for damages involving past transactions, which the corporation believes to be without merit. No provision has been made in the above balance sheet for any liability which may be established or any further legal expense which may be incurred in the defense of such actions.

\$10,540,753.20

UNITED STORES CORPORATION

STATEMENT OF INCOME AND EXPENSE FOR THE YEAR ENDING DECEMBER 31, 1940

Income:

Dividends received	\$857,763.30
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Expenses:

Stock transfer expense.....	\$11,572.85
Franchise and capital stock taxes.....	7,646.65
Interest paid on bank loans.....	2,040.27
Interest paid on Federal Income Tax assessments for prior years.....	5,785.12
Administrative, general and legal expenses.....	<u>74,739.05</u>
	101,783.94
	<u>\$755,979.36</u>
Provision for Federal income tax.....	<u>28,000.00</u>
Net income for year ending December 31, 1940, carried to statement of surplus	<u>\$727,979.36</u>

UNITED STORES CORPORATION

STATEMENT OF SURPLUS FOR THE YEAR ENDING DECEMBER 31, 1940

Capital surplus:

Balance at December 31, 1939.....	\$ 2,847,392.13
Reserve for Federal income tax (created from earned surplus prior to January 1, 1937) not required.....	68,841.64
Par value of 70 shares of common stock donated by a stockholder and excess of par value over cost of scrip representing 8½ shares of common stock.....	36.85
Capital surplus at December 31, 1940, per balance sheet.....	<u>\$2,916,270.62</u>

Earned surplus since January 1, 1937:—

Balance at December 31, 1939.....	\$ 240,342.00
Net income for the year ending December 31, 1940, per statement attached.....	727,979.36
<i>Deduct:</i> —Dividend of \$7.50 per share paid in cash on December 27, 1940 on \$6 cumulative convertible preferred stock.....	\$717,712.50
Federal income tax assessments for prior years.....	1,936.86
	<u>719,649.36</u>
Earned surplus at December 31, 1940, per balance sheet.....	<u>\$ 248,672.00</u>

To the Board of Directors of

UNITED STORES CORPORATION :

We have examined the balance sheet of United Stores Corporation as at December 31, 1940, and the statements of income and expense and surplus for the year ending on that date. In connection therewith, we have examined accounting records of the Corporation and other supporting evidence, have obtained confirmation of the cash in bank and of the securities pledged against the bank loan at December 31, 1940, and have counted the other securities and cash.

In our opinion, except as to the questions mentioned in the balance sheet Notes 2, 4, and 5, on which we are unable to express an opinion, the accompanying balance sheet and related statements of income and expense and surplus present fairly the position of United Stores Corporation at December 31, 1940, and the results of its operations for the year ending on that date, in conformity with accepted accounting principles applied on a basis consistent with that of the preceding year.

56 Pine Street
New York, N. Y.
March 13, 1941.

PRICE, WATERHOUSE & CO.

